

701—50.9(422) Examples for tax periods beginning prior to January 1, 2002.

EXAMPLE 1. The following example is based on the following facts. The taxpayers are a husband and wife who have two dependent children. Their income consists of husband's wages of \$50,000; rental loss (\$5,000); wife's S corporation income of \$500,000; joint interest income of \$35,000. They have Iowa itemized deductions of \$20,000, and an out-of-state tax credit of \$1,150 on the S corporation income. The actual cash distribution from the S corporation was \$289,840, none of which has been previously taxed by Iowa. Federal income tax paid during the year totals \$191,214. The S corporation is a value-added corporation which carries on business within and without Iowa with 10 percent of its sales in Iowa.

a. Computation of tax on a joint return basis.

Wages	\$50,000
S corporation income	500,000
Interest	35,000
Rent	<u>(5,000)</u>
Total income	\$580,000
Less federal tax deduction	<u>(191,214)</u>
Subtotal	\$388,786
Less itemized deductions	<u>(20,000)</u>
Taxable income	\$368,786
Tax	\$35,378
Less personal credits husband & wife & two dependents	<u>(120)</u>
Subtotal	\$35,258
Less out-of-state tax credit	<u>(1,150)</u>
Iowa individual tax	<u>\$34,108</u>

Computation of refund

Total income	\$580,000
Less S corporation income	<u>(500,000)</u>
Subtotal	\$80,000
Add the greater of cash distributions not previously taxed, \$289,840 less 50% federal taxes on S corporation income of \$82,420 = \$207,420, or income attributable to Iowa sources \$50,000	<u>207,420</u>
Income attributable to Iowa sources	\$287,420
Total income	\$580,000
Taxable percentage	49.5552%
Iowa individual tax before credit	\$35,258
Credit percentage	50.4448%
Subtotal	\$17,786
Less out-of-state tax credit	<u>(1,150)</u>
S corporation tax credit	\$16,636
Amount of refund	<u>\$16,636</u>

Computation of 50 percent of federal income tax attributable to S corporation income: $50\% \times \$191,214 \times \$500,000 / \$580,000 = 50\% \times \$164,840 = \$82,420$.

Computation of percent of income attributable to Iowa sources: $100 \times \$287,420 / \$580,000 = 49.5552\%$.

Computation of percent income attributable to non-Iowa sources: $100 - 49.5552\% = 50.4448\%$.

b. Computation on a separate filing on a combined return basis.

	Spouse	Taxpayer
Wages	\$50,000	-0-
S corporation income	-0-	\$500,000
Interest	17,500	17,500
Rent	<u>(5,000)</u>	<u>-0-</u>
Total income	\$62,500	\$517,500
Less federal tax deduction	<u>(20,613)</u>	<u>(170,601)</u>
Subtotal	\$41,887	\$346,899
Less itemized deductions	<u>(2,156)</u>	<u>(17,844)</u>
Taxable income	\$39,731	\$329,055
Tax	\$2,638	\$31,410
Less personal credits taxpayer & spouse & two dependents	<u>(100)</u>	<u>(20)</u>
Subtotal	\$2,538	\$31,390
Less out-of-state tax credit	<u>(-0-)</u>	<u>(1,150)</u>
Iowa individual tax	<u>\$2,538</u>	<u>\$30,240</u>
<u>Computation of refund</u>		
Total income		\$517,500
Less S corporation income		<u>(500,000)</u>
Subtotal		\$17,500
Add the greater of cash distributions not previously taxed \$289,840 less 50% of federal taxes on S corporation income of \$82,420 = \$207,420, or income attributable to Iowa sources \$50,000		<u>207,420</u>
Income attributable to Iowa sources		\$224,920
Total income		\$517,500
Taxable percentage		43.4628%
Iowa individual tax before credit		\$31,390
Credit percentage		<u>56.5372%</u>
Subtotal		\$17,747
Less out-of-state tax credit		<u>(1,150)</u>
S corporation tax credit		\$16,597
Amount of refund		<u>\$16,597</u>

Taxpayer's computation of 50 percent of federal income tax attributable to S corporation income: $50\% \times \$170,601 \times \$500,000 / \$517,500 = 50\% \times \$164,832 = \$82,416$.

Taxpayer's computation of percent of income attributable to Iowa sources: $100 \times \$224,920 / \$517,500 = 43.4628\%$.

Taxpayer's computation of percent income attributable to non-Iowa sources: $100 - 43.4628\% = 56.5372\%$.

EXAMPLE 2. The following example is based on the following facts. The taxpayers are a husband and wife who have three dependent children. Their income consists of husband's wages of \$100,000; wife's wages of \$30,000; husband's S corporation income of \$400,000; wife's S corporation income

of \$200,000; joint interest income of \$82,000; joint dividends of \$5,000. They have Iowa itemized deductions of \$40,000 and an out-of-state tax credit of \$1,700 on the S corporation income. The actual cash distribution from the S corporation was \$210,000, none of which has been previously taxed by Iowa. Federal income tax paid during the year totals \$263,722. The S corporation is a value-added corporation which carries on business within and without Iowa with 60 percent of its sales in Iowa.

a. Computation of tax on a joint return basis.

Wages	\$130,000
S corporation income	600,000
Interest	82,000
Dividends	<u>5,000</u>
Total income	\$817,000
Less federal tax deduction	<u>(263,722)</u>
Subtotal	\$553,278
Less itemized deductions	<u>(40,000)</u>
Taxable income	\$513,278
Tax	\$49,796
Less personal credits husband & wife & three dependents	<u>(160)</u>
Subtotal	\$49,636
Less out-of-state tax credit	<u>(1,700)</u>
Iowa individual tax	<u>\$47,936</u>
Computation of refund	
Total income	\$817,000
Less S corporation income	<u>(600,000)</u>
Subtotal	\$217,000
Add the greater of cash distributions not previously taxed \$210,000 less 50% federal taxes on S corporation income of \$96,838 = \$126,043, or income attributable to Iowa sources \$360,000	<u>360,000</u>
Income attributable to Iowa sources	\$577,000
Total income	\$817,000
Taxable percentage	70.6243%
Iowa individual tax before credit	\$49,636
Credit percentage	29.3757%
Subtotal	\$14,581
Less out-of-state tax credit	<u>(1,700)</u>
S corporation tax credit	\$12,881
Amount of refund	<u>\$12,881</u>

Computation of 50 percent of federal income tax attributable to S corporation income not to exceed cash distribution not previously taxed: $50\% \times \$263,722 \times \$600,000 / \$817,000 = 50\% \times \$193,676 = \$96,838$.

Computation of percent of income attributable to Iowa sources: $100 \times \$577,000 / \$817,000 = 70.6243\%$.

Computation of percent income attributable to non-Iowa sources: $100 - 70.6243\% = 29.3757\%$.

b. Computation on a separate filing on a combined return basis.

	Spouse	Taxpayer
Wages	\$30,000	\$100,000
S corporation income	200,000	400,000
Interest	41,000	41,000
Dividends	<u>2,500</u>	<u>2,500</u>
Total income	\$273,500	\$543,500
Less federal tax deduction	<u>(88,294)</u>	<u>(175,428)</u>
Subtotal	\$185,206	\$368,072
Less itemized deductions	<u>(13,392)</u>	<u>(26,608)</u>
Taxable income	\$171,814	\$341,464
Tax	\$15,718	\$32,649
Less personal credits taxpayer & spouse & three dependents	<u>(60)</u>	<u>(100)</u>
Subtotal	\$15,658	\$32,549
Less out-of-state tax credit	<u>(567)</u>	<u>(1,133)</u>
Iowa individual tax	<u>\$15,091</u>	<u>\$31,416</u>
Computation of refund		
Total income	\$273,500	\$543,500
Less S corporation income	<u>(200,000)</u>	<u>(400,000)</u>
Subtotal	\$73,500	\$143,500
Add the greater of cash distributions not previously taxed, \$210,000 less 50% of federal taxes on S corporation income of \$96,838 = \$126,043, or income attributable to Iowa sources, \$360,000. Attributable 66.6667% to husband and 33.3333% to wife	<u>120,000</u>	<u>240,000</u>
Income attributable to Iowa sources	\$193,500	\$383,500
Total income	\$273,500	\$543,500
Taxable percentage	70.7495%	70.5612%
Iowa individual tax before out-of-state tax credit	\$15,658	\$32,549
Credit percentage	<u>29.2505%</u>	<u>29.4388%</u>
Subtotal	\$4,580	\$9,582
Less out-of-state tax credit	<u>(567)</u>	<u>(1,133)</u>
S corporation tax credit	\$4,013	\$8,449
Amount of refund	<u>\$4,013</u>	<u>\$8,449</u>

Computation of 50 percent of federal income tax attributable to S corporation income not to exceed cash distribution not previously taxed:

Husband: $50\% \times \$175,428 \times \$400,000 / \$543,500 = 50\% \times \$129,109 = \$64,555$.

Wife: $50\% \times \$88,294 \times \$200,000 / \$273,500 = 50\% \times \$64,566 = \$32,283$.

Husband's computation of percent of income attributable to Iowa sources: $100 \times \$383,500 / \$543,500 = 70.5612\%$.

Husband's computation of percent income attributable to non-Iowa sources: $100 - 70.5612\% = 29.4388\%$.

Wife's computation of percent of income attributable to Iowa sources: $100 \times \$193,500 / \$273,500 = 70.7495\%$.

Wife's computation of percent of income attributable to non-Iowa sources: $100 - 70.7495\% = 29.2505\%$.

This rule is intended to implement Iowa Code section 422.5, subsection 1, paragraph "j."